



March 9, 2007

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Estimated Fiscal Year 2006 Supply Chain Management
Impact Associated with National Office Supply Contract
(Report Number CA-OT-07-001)

U.S. Postal Service Supply Management personnel requested the Office of Inspector General assist them in estimating the fiscal year (FY) 2006 cost avoidance associated with the Postal Service's national contract with OfficeMax Government Solutions (OfficeMax)¹ for office supplies. We agreed to perform an analysis (Project Number 06YR003CA000) similar to the FY 2004 and FY 2005 analyses presented in our prior reports.²

To perform our analysis we used data for the entire fiscal year (October 1, 2005 through September 30, 2006). We compared the Postal Service eBay data related to the OfficeMax contract and OfficeMax General Services Administration (GSA) prices. During the analysis, we noted the unmatched percentage³ rose from an average of 20 percent in FY 2005 to an average of 38 percent in FY 2006. We attributed at least a portion of the increase to OfficeMax withdrawing those items from its GSA Advantage buy list that had been purchased from countries without reciprocal trade agreements with the United States.

Because the FY 2006 unmatched percentage was so high, we selected a sample of unmatched items and determined whether the prices for the sample items could be matched to GSA Advantage schedules other than OfficeMax. We used the results of the analysis to estimate the cost avoidance for items not on the

¹ The Postal Service's original contract was with Boise Cascade Office Products, Inc. During FY 2006, the company name was changed to OfficeMax Government Solutions and the contract was updated accordingly.

² The prior reports include the following:

- *Estimated FY 2005 Supply Chain Management Impact Associated With National Office Supply Contract* (Product Number CA-OT-05-003, dated August 19, 2005);
- *Estimated Supply Chain Management Impact Associated With National Office Supply Contract* (Report Number CA-MA-05-002, dated September 7, 2005); and
- *Updated Estimated Fiscal Year 2005 Supply Chain Management Impact Associated With National Office Supply Contract* (Product Number CA-OT-06-001, dated November 28, 2005).

³ The unmatched percentage represents the percentage of items (by the dollar amount of Postal Service purchases) that were unique to the Postal Service where there were no listed OfficeMax GSA Advantage prices.

OfficeMax GSA Advantage schedule. Our methodology is detailed in the Appendix. The final results were as follows:

ESTIMATED COST AVOIDANCE

	Net Savings
Cost avoidance for items on the U.S. Postal Service OfficeMax and OfficeMax GSA Advantage price schedules ⁴	\$3,800,627
Estimated cost avoidance for items not on the OfficeMax GSA Advantage schedule ⁵	2,096,000
TOTAL	\$5,896,627

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Matt Hartshorn, Acting Director, Supply Management, or me at (703) 248-2100.



Judy Leonhardt
Acting Deputy Assistant Inspector General
for Headquarter Operations

Attachment

cc: Karen E. Kallipolites
Marie K. Martinez

⁴ This represents the increased costs that the Postal Service would have incurred if it had purchased the items from the OfficeMax GSA Advantage schedule.

⁵ This is an estimate for items that were not listed on the OfficeMax GSA Advantage price list.

APPENDIX. METHODOLOGY TO CALCULATE FY 2006 COST AVOIDANCE ASSOCIATED WITH POSTAL SERVICE'S CONTRACT WITH OFFICEMAX

1. Obtained FY 2006 quarterly purchase quantities and prices from the Postal Service's eBuy system; consolidated quantities; and calculated extended cost by item number.
2. Obtained FY 2006 product prices OfficeMax offered to other agencies through their GSA schedule.
3. Matched Postal Service eBUY and OfficeMax GSA schedule product numbers after making their formats consistent (i.e., removing dashes, slashes, etc.).
4. Calculated the hypothetical OfficeMax extended cost for matched items by taking eBuy purchases quantities and multiplying the quantities by the OfficeMax GSA price.
5. Calculated savings for matched items as the difference between the Postal Service eBuy and OfficeMax GSA extended costs.
6. Stratified universe of unmatched non-trade agreement act items purchased in the third quarter of FY 2006 into the following four groups:
 - A. Low unit cost (<\$100) and low extended cost (<\$1,000)
 - B. Low unit cost (<\$100) and high extended cost (>= \$1,000)
 - C. High unit cost (>= \$100) and low extended cost (<\$1,000)
 - D. High unit cost (>= \$100) and high extended cost (>=\$1,000)
7. Selected a stratified random sample of 204 item numbers from the unmatched list.
8. Projected the percentage of savings from the alternative sources identified for the sample items.
9. Applied the percentage of savings to the amount spent for the universe of unmatched items purchased in the third and fourth quarters of FY 2006. (There was no change in Postal Service pricing in the fourth quarter.)
10. Because we did not test the unmatched items for the first and second quarters of FY 2006, we estimated the savings for those items by multiplying the amount spent for unmatched items purchased during those quarters by the percentage of savings for matched items.